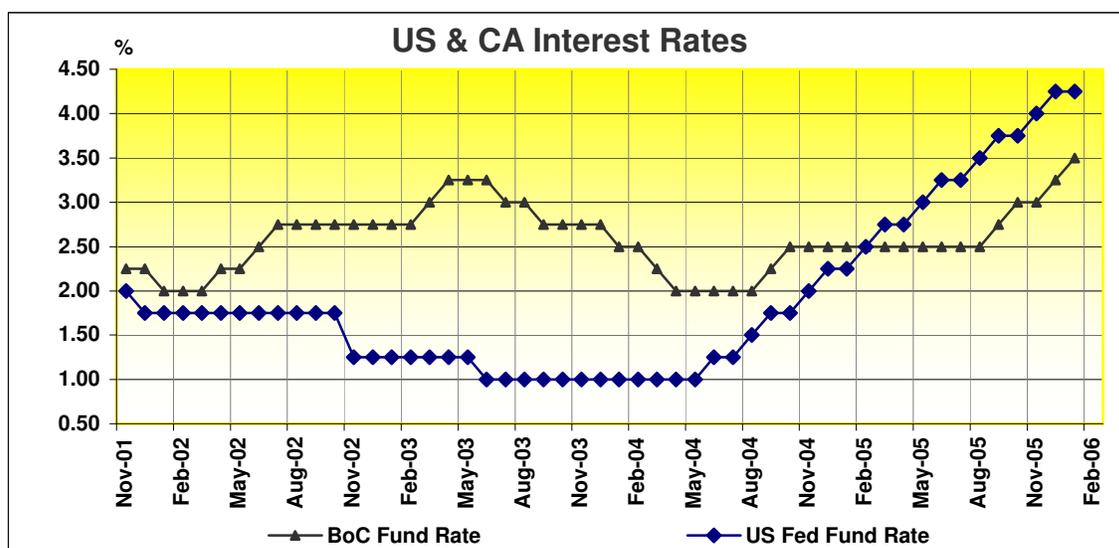


BoC Raise The Overnight Rate By 0.25% To 3.50%
Canadian Election Summary

With a further 25bps hike from the Bank of Canada, the overnight rate now currently stands at 3.50%. This is the fourth successive monetary tightening action taken by the BoC and continues their tightening rhetoric. This move was largely expected by the market, however, the accompanying statement did cause a stir in the market. In previous statements issued the BoC, they cited further reduction in monetary stimulus as necessary, although on this occasion they proved moderately dovish stating that the BoC looked to some modest further increases in policy. Although the BoC see the Core Consumer Price Index, measure of consumer inflation, being stable and in line with expectations at 2%, the comments indicate that in the near term the BoC as with US Federal Reserve are nearing an end to their tightening cycle, and while a further rate hike in March is anticipated, the potential for further increases diminish significantly.



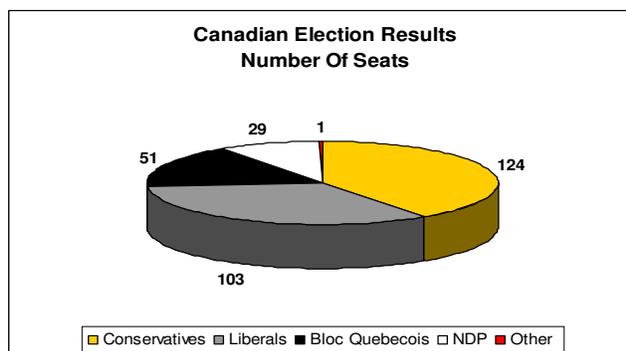
Interest Rates				
	Current Rate	Last Change	Date of Change	Next Meeting
BoC O/N Rate	3.50%	+25bp	24 Jan 06	7 Mar 06
US Fed Funds Rate	4.25%	+25bp	13 Dec 05	31 Jan 06

Election Summary

Politics:

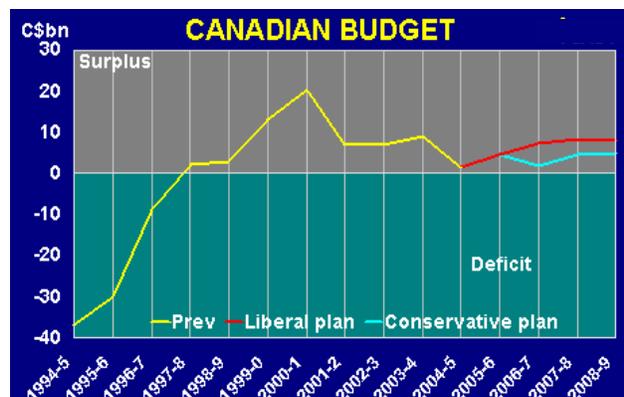
Finally we have seen a resolution to the political uncertainty which has undermined the Canadian economy for the past 12 months. Whilst the outcome came as no surprise it was certainly not the result many traders were hoping for. With the lack of a majority government it is apparent that the Liberals will cause as many difficulties for the minority Conservatives as the Conservatives gave the Liberals for example votes of 'no confidence' being called for. It would not be surprising to see another election within

two years. Furthermore, with the absence of a majority, the Conservatives will find it extremely difficult to introduce and pass new legislation, although I am sure that this will not dissuade them from attempting to initiate their tax cutting agenda, which happens to be slightly more aggressive than proposed by the Liberals. In summary the outcome of this election does not bring enough political stability to appease the majority of market analysts.



Economy and Growth:

The outstanding performance of the Canadian economy has been built on sound fundamentals; evidence of this is the fact that Canada is the only G7 nation whom continues to run both a current account and budget surplus. With a shift of power in favor of the Conservatives, concerns have arisen



that the surpluses, in particular the budget surplus may narrow and even run into a small deficit. While the Conservatives have assured the market that they are keen to continue holding a surplus, the proposed restraints for spending in areas not specifically targeted for increases may indeed be hard to achieve, and in fact keeping the Bloc Quebecois party "on side" may consequently lead to higher spending in that region. The Conservatives have also been very quick to point out that any possible risks to growth over the coming years will be more directly attributable to global imbalances most notably the US twin deficits, a factor outside the

BoC's control. On a final point is also worthy to note that whilst the relative strength of the Canadian dollar has as yet 'arguably' failed to damage the competitiveness of Canadian exporters, Harper did issue a statement to the effect that a strong Canadian dollar is harmful to the economy. An increase in this rhetoric may lead to many speculators adjusting their long term CAD holdings, although the incoming Finance Minister may want to distance the government from currency manipulation.

Spot Rate: 1.1530 24th January 2006